

**CITY OF FARMERSVILLE**  
**CALIFORNIA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**  
**JUNE 30, 2013**

**CITY OF FARMERSVILLE**

**JUNE 30, 2013**

**TABLE OF CONTENTS**

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT .....	1
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position .....	5
Statement of Activities.....	6
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	8
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Position.....	11
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Government-wide Statement of Activities .....	14
Statement of Net Position – Proprietary Funds .....	15
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds .....	16
Statement of Cash Flows – Proprietary Funds .....	17
Statement of Fiduciary Net Position – Fiduciary Funds .....	18
Statement of Changes in Fiduciary Net Position – Fiduciary Funds .....	19
Notes to the Basic Financial Statements.....	20
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress .....	44
Budgetary Comparison Schedule – General Fund.....	45
Budgetary Comparison Schedule – Federal and State Grants Special Revenue Fund .....	46
Budgetary Comparison Schedule – Street Tax Special Revenue Fund .....	47

**CITY OF FARMERSVILLE**

**JUNE 30, 2013**

Page

**REQUIRED SUPPLEMENTARY INFORMATION (Continued)**

Budgetary Comparison Schedule – CDBG Program Income Special Revenue Fund .....	48
Notes to Required Supplementary Information .....	49

**SUPPLEMENTARY INFORMATION**

**Nonmajor Governmental Funds:**

Combining Balance Sheet – Nonmajor Governmental Funds .....	52
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds .....	53

**Special Revenue Funds:**

Combining Balance Sheet – Nonmajor Special Revenue Funds .....	54
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds .....	56

**Capital Projects Funds:**

Combining Balance Sheet – Nonmajor Capital Projects Fund .....	58
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Capital Projects Fund .....	59

**Fiduciary Funds:**

Combining Statement of Changes in Assets and Liabilities – Agency Funds .....	60
---	----

**OVERALL COMPLIANCE, INTERNAL CONTROLS AND FEDERAL AWARDS SECTION**

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	65
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 .....	67
Schedule of Expenditures of Federal Awards .....	69
Notes to Schedule of Expenditures of Federal Awards .....	70
Schedule of Findings and Questioned Costs .....	71
Summary Schedule of Prior Audit Findings .....	75



## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council  
City of Farmersville, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Farmersville, California (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Farmersville, California, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

677 Scott Avenue  
Clovis, CA 93612

tel 559.299.9540  
fax 559.299.2344

## **Emphasis of Matter Regarding New Accounting Pronouncements Adopted**

As described in Note 1 to the basic financial statements, effective July 1, 2012, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules of funding progress on pages 44-49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

*Price Pange & Company*

Clovis, California  
April 9, 2014

## BASIC FINANCIAL STATEMENTS

*THIS PAGE IS LEFT BLANK INTENTIONALLY.*

**CITY OF FARMERSVILLE**

**STATEMENT OF NET POSITION  
JUNE 30, 2013**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and investments	\$ 3,296,481	\$ 3,070,455	\$ 6,366,936
Receivables (net of allowance for uncollectibles):			
Consumer	-	205,548	205,548
Intergovernmental	1,049,978	5,000	1,054,978
Other	13,973	-	13,973
Loans receivable	2,608,207	-	2,608,207
Prepaid expenses	14,803	13,932	28,735
Capital assets (net)	<u>9,080,002</u>	<u>4,780,018</u>	<u>13,860,020</u>
 Total Assets	 <u>16,063,444</u>	 <u>8,074,953</u>	 <u>24,138,397</u>
<b><u>Liabilities</u></b>			
Accounts payable	828,524	350,551	1,179,075
Salaries and benefits payable	13,570	40,710	54,280
Deposits	150	-	150
Unearned revenue	80,395	-	80,395
Long-term liabilities -			
Portion due or payable within one year:			
Compensated absences	91,784	9,458	101,242
Portion due or payable after one year:			
Compensated absences	<u>367,138</u>	<u>37,832</u>	<u>404,970</u>
 Total Liabilities	 <u>1,381,561</u>	 <u>438,551</u>	 <u>1,820,112</u>
<b><u>Net Position</u></b>			
Net investment in capital assets	9,080,002	4,780,018	13,860,020
Restricted for:			
Public safety	176,734	-	176,734
Buildings, grounds and parks	37,543	-	37,543
Street construction and maintenance	1,078,589	-	1,078,589
Community development	83,877	-	83,877
Capital maintenance	615,540	-	615,540
Unrestricted	<u>3,609,598</u>	<u>2,856,384</u>	<u>6,465,982</u>
 Total Net Position	 <u>\$ 14,681,883</u>	 <u>\$ 7,636,402</u>	 <u>\$ 22,318,285</u>

The notes to the basic financial statements are an integral part of this statement.



# CITY OF FARMERSVILLE

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
City council	\$ 1,268	\$ -	\$ -	\$ -
Administration	390,984	50,434	-	-
Library	6,493	-	-	-
Public safety:				
Law enforcement	1,838,861	85,669	228,686	2,072
Fire services	324,381	62,026	6,700	3,342
Animal control	109,850	1,325	-	-
Building, grounds and parks	81,461	-	-	-
Recreation	32,151	-	-	-
Street construction and maintenance	496,622	-	254,511	242,006
Childcare center operations	21,794	-	292,348	-
Community development	1,148,800	19,815	1,440,415	-
Total Governmental Activities	4,452,665	219,269	2,222,660	247,420
Business-Type Activities:				
Water	644,303	556,350	-	-
Sewer	696,401	817,023	-	4,966
Refuse	594,258	525,828	-	-
Total Business-Type Activities	1,934,962	1,899,201	-	4,966
Total City of Farmersville	\$ 6,387,627	\$ 2,118,470	\$ 2,222,660	\$ 252,386

### General Revenues:

#### Taxes:

Property taxes

Sales taxes

Franchise taxes

Other taxes

Motor vehicle in-lieu

Rental income

Earnings on investments

Miscellaneous

#### Total General Revenues

Changes in net position

Net Position - Beginning

Prior period adjustments

Net Position - Beginning (as restated)

Net Position - Ending

The notes to the basic financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (1,268)	\$ -	\$ (1,268)
(340,550)	-	(340,550)
(6,493)	-	(6,493)
(1,522,434)	-	(1,522,434)
(252,313)	-	(252,313)
(108,525)	-	(108,525)
(81,461)	-	(81,461)
(32,151)	-	(32,151)
(105)	-	(105)
270,554	-	270,554
311,430	-	311,430
(1,763,316)	-	(1,763,316)
-	(87,953)	(87,953)
-	125,588	125,588
-	(68,430)	(68,430)
-	(30,795)	(30,795)
(1,763,316)	(30,795)	(1,794,111)
1,423,685	-	1,423,685
749,852	-	749,852
122,594	-	122,594
8,827	-	8,827
5,624	-	5,624
135,368	-	135,368
9,622	3,997	13,619
69,866	-	69,866
2,525,438	3,997	2,529,435
762,122	(26,798)	735,324
12,372,046	8,009,222	20,381,268
1,547,715	(346,022)	1,201,693
13,919,761	7,663,200	21,582,961
\$ 14,681,883	\$ 7,636,402	\$ 22,318,285

The notes to the basic financial statements are an integral part of this statement.

**CITY OF FARMERSVILLE**

**BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	<u>General</u>	<u>Federal and State Grants Special Revenue Fund</u>	<u>Street Tax Special Revenue Fund</u>	<u>Child Care Special Revenue Fund</u>
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 1,142,805	\$ -	\$ 945,875	\$ 371,924
Receivables (net of allowance for uncollectibles):				
Intergovernmental	165,994	666,137	168,379	49,468
Other	13,973	-	-	-
Due from other funds	241,587	-	-	-
Prepaid expenses	14,803	-	-	-
Loans receivable	-	-	-	-
Advances to other funds	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 1,579,162</u>	<u>\$ 666,137</u>	<u>\$ 1,114,254</u>	<u>\$ 421,392</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 156,427	\$ 227,402	\$ 35,665	\$ 394,898
Salaries and benefits payable	13,570	-	-	-
Deposits	150	-	-	-
Due to other funds	-	177,831	-	49,993
Unearned revenue	-	80,395	-	-
Advances from other funds	91,950	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>262,097</u>	<u>485,628</u>	<u>35,665</u>	<u>444,891</u>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue	<u>-</u>	<u>520,178</u>	<u>-</u>	<u>53,124</u>
Total Deferred Inflows of Resources	<u>-</u>	<u>520,178</u>	<u>-</u>	<u>53,124</u>
<b>Fund balances</b>				
Nonspendable:				
Change funds	1,050	-	-	-
Prepaid expenses	14,803	-	-	-
Restricted for:				
Public safety	-	-	-	-
Buildings, grounds and parks	-	-	-	-
Street construction and maintenance	-	-	1,078,589	-
Community development	-	-	-	-
Capital maintenance	-	-	-	-
Unassigned	1,301,212	(339,669)	-	(76,623)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>1,317,065</u>	<u>(339,669)</u>	<u>1,078,589</u>	<u>(76,623)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)	<u>\$ 1,579,162</u>	<u>\$ 666,137</u>	<u>\$ 1,114,254</u>	<u>\$ 421,392</u>

The notes to the basic financial statements are an integral part of this statement.

<u>CDBG Program Income Special Revenue Fund</u>	<u>Low and Moderate Income Housing Asset Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 60,932	\$ 3,853	\$ 771,092	\$ 3,296,481
-	-	-	1,049,978
-	-	-	13,973
-	-	-	241,587
-	-	-	14,803
1,905,569	702,638	-	2,608,207
<u>-</u>	<u>-</u>	<u>91,950</u>	<u>91,950</u>
<u>\$ 1,966,501</u>	<u>\$ 706,491</u>	<u>\$ 863,042</u>	<u>\$ 7,316,979</u>
\$ -	\$ -	\$ 14,132	\$ 828,524
-	-	-	13,570
-	-	-	150
-	-	13,763	241,587
-	-	-	80,395
<u>-</u>	<u>-</u>	<u>-</u>	<u>91,950</u>
<u>-</u>	<u>-</u>	<u>27,895</u>	<u>1,256,176</u>
<u>1,905,570</u>	<u>702,638</u>	<u>-</u>	<u>3,181,510</u>
<u>1,905,570</u>	<u>702,638</u>	<u>-</u>	<u>3,181,510</u>
-	-	-	1,050
-	-	-	14,803
-	-	176,734	176,734
-	-	37,543	37,543
-	-	-	1,078,589
60,931	3,853	19,093	83,877
-	-	615,540	615,540
<u>-</u>	<u>-</u>	<u>(13,763)</u>	<u>871,157</u>
<u>60,931</u>	<u>3,853</u>	<u>835,147</u>	<u>2,879,293</u>
<u>\$ 1,966,501</u>	<u>\$ 706,491</u>	<u>\$ 863,042</u>	<u>\$ 7,316,979</u>

The notes to the basic financial statements are an integral part of this statement.

*THIS PAGE IS LEFT BLANK INTENTIONALLY.*

**CITY OF FARMERSVILLE**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION  
JUNE 30, 2013**

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - governmental funds		\$ 2,879,293
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$12,467,606 and the accumulated depreciation is \$3,387,604.		9,080,002
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		3,181,510
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Compensated absences	<u>(458,922)</u>	
Total long-term liabilities		<u>(458,922)</u>
Net position of governmental activities		<u>\$ 14,681,883</u>

**CITY OF FARMERSVILLE**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>General</u>	<u>Federal and State Grants Special Revenue Fund</u>	<u>Street Tax Special Revenue Fund</u>	<u>Child Care Special Revenue Fund</u>
Revenues:				
Property taxes	\$ 1,369,277	\$ -	\$ -	\$ -
Sales taxes	749,852	-	-	-
Other taxes	131,709	-	-	-
Licenses and permits	60,436	-	-	-
Developer fees	-	-	-	-
Charges for services	132,584	-	-	-
Intergovernmental	169,232	896,491	494,969	292,349
Fines and penalties	25,131	-	-	-
Investment income	3,002	-	1,680	-
Loan repayments	-	-	-	-
Rent	135,368	-	-	-
Cost reimbursement	26,856	-	-	-
Miscellaneous revenues	<u>43,010</u>	<u>5,296</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>2,846,457</u>	<u>901,787</u>	<u>496,649</u>	<u>292,349</u>
Expenditures:				
Current:				
City council	1,268	-	-	-
Administration	334,041	-	-	-
Library	6,493	-	-	-
Public safety:				
Law enforcement	1,782,466	-	-	-
Fire services	286,973	-	-	-
Animal control	109,850	-	-	-
Buildings, grounds and parks	79,391	-	-	-
Recreation	6,000	-	-	-
Street construction and maintenance	6,429	-	256,771	-
Community development	83,506	1,022,751	-	-
Capital outlay	<u>48,205</u>	<u>-</u>	<u>476,981</u>	<u>-</u>
Total Expenditures	<u>2,744,622</u>	<u>1,022,751</u>	<u>733,752</u>	<u>-</u>
Net changes in fund balances	<u>101,835</u>	<u>(120,964)</u>	<u>(237,103)</u>	<u>292,349</u>
Fund Balances, July 1, 2012	934,070	(218,705)	1,315,692	(368,972)
Prior period adjustments	<u>281,160</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, July 1, 2012 (as restated)	<u>1,215,230</u>	<u>(218,705)</u>	<u>1,315,692</u>	<u>(368,972)</u>
Fund Balances, June 30, 2013	<u>\$ 1,317,065</u>	<u>\$ (339,669)</u>	<u>\$ 1,078,589</u>	<u>\$ (76,623)</u>

The notes to the basic financial statements are an integral part of this statement.

CDBG Program Income Special Revenue Fund	Low and Moderate Income Housing Asset Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 54,120	\$ 1,423,397
-	-	-	749,852
-	-	-	131,709
-	-	-	60,436
-	-	6,962	6,962
-	-	-	132,584
1,750	-	72,648	1,927,439
-	-	-	25,131
80	3,853	1,008	9,623
-	-	17,580	17,580
-	-	-	135,368
-	-	-	26,856
-	-	1,117	49,423
<u>1,830</u>	<u>3,853</u>	<u>153,435</u>	<u>4,696,360</u>
-	-	-	1,268
-	-	-	334,041
-	-	-	6,493
-	-	67,025	1,849,491
-	-	5,941	292,914
-	-	-	109,850
-	-	1,617	81,008
-	-	-	6,000
-	-	51,406	314,606
-	-	31,610	1,137,867
-	-	13,416	538,602
<u>-</u>	<u>-</u>	<u>171,015</u>	<u>4,672,140</u>
<u>1,830</u>	<u>3,853</u>	<u>(17,580)</u>	<u>24,220</u>
59,101	-	852,727	2,573,913
<u>-</u>	<u>-</u>	<u>-</u>	<u>281,160</u>
<u>59,101</u>	<u>-</u>	<u>852,727</u>	<u>2,855,073</u>
<u>\$ 60,931</u>	<u>\$ 3,853</u>	<u>\$ 835,147</u>	<u>\$ 2,879,293</u>

The notes to the basic financial statements are an integral part of this statement.



**CITY OF FARMERSVILLE**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	24,220
--	----	--------

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	499,853
Depreciation expense	(367,430)

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These activities consist of:

Decrease in compensated absences	<u>87,051</u>	
Total additional expenditures		87,051

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>518,428</u>
--	----------------

Change in net position of governmental activities	<u><u>\$</u></u>	<u>762,122</u>
---	------------------	----------------

**CITY OF FARMERSVILLE**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2013**

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Refuse Fund</u>	<u>Total</u>
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$ 1,452,484	\$ 1,519,612	\$ 98,359	\$ 3,070,455
Receivables (net of allowance for uncollectibles):				
Consumer	53,873	92,804	58,871	205,548
Intergovernmental	-	-	5,000	5,000
Prepaid expenses	<u>6,966</u>	<u>6,966</u>	<u>-</u>	<u>13,932</u>
Total Current Assets	<u>1,513,323</u>	<u>1,619,382</u>	<u>162,230</u>	<u>3,294,935</u>
Noncurrent Assets:				
Capital assets (net)	<u>1,647,228</u>	<u>3,132,790</u>	<u>-</u>	<u>4,780,018</u>
Total Noncurrent Assets	<u>1,647,228</u>	<u>3,132,790</u>	<u>-</u>	<u>4,780,018</u>
Total Assets	<u>3,160,551</u>	<u>4,752,172</u>	<u>162,230</u>	<u>8,074,953</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts payable	28,022	153,077	169,452	350,551
Salaries and benefits payable	13,570	13,570	13,570	40,710
Compensated absences	<u>3,952</u>	<u>5,243</u>	<u>263</u>	<u>9,458</u>
Total Current Liabilities	<u>45,544</u>	<u>171,890</u>	<u>183,285</u>	<u>400,719</u>
Noncurrent Liabilities:				
Compensated absences	<u>15,807</u>	<u>20,973</u>	<u>1,052</u>	<u>37,832</u>
Total Noncurrent Liabilities	<u>15,807</u>	<u>20,973</u>	<u>1,052</u>	<u>37,832</u>
Total Liabilities	<u>61,351</u>	<u>192,863</u>	<u>184,337</u>	<u>438,551</u>
<u>Net Position</u>				
Net investment in capital assets	1,647,228	3,132,790	-	4,780,018
Unrestricted	<u>1,451,972</u>	<u>1,426,519</u>	<u>(22,107)</u>	<u>2,856,384</u>
Total Net Position	<u>\$ 3,099,200</u>	<u>\$ 4,559,309</u>	<u>\$ (22,107)</u>	<u>\$ 7,636,402</u>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF FARMERSVILLE**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET POSITION - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Refuse Fund</u>	<u>Total</u>
Operating Revenues:				
Charges for services	\$ 551,862	\$ 811,565	\$ 525,827	\$ 1,889,254
Operating Expenses:				
Personnel costs	255,793	271,541	70,415	597,749
Utilities	99,033	60,088	-	159,121
Contractual services	39,395	122,857	384,119	546,371
Franchise payments	10,750	12,500	34,500	57,750
Operations and maintenance	133,436	138,684	105,224	377,344
Depreciation	105,896	90,731	-	196,627
Total Operating Expenses	644,303	696,401	594,258	1,934,962
Operating Income (Loss)	(92,441)	115,164	(68,431)	(45,708)
Non-operating Revenue (Expenses):				
Connection fees	4,488	5,459	-	9,947
Developer fees	-	4,966	-	4,966
Investment income	993	2,822	182	3,997
Total Non-operating Revenues (Expenses)	5,481	13,247	182	18,910
Changes in net position	(86,960)	128,411	(68,249)	(26,798)
Net Position - Beginning	3,279,410	4,684,748	45,064	8,009,222
Prior period adjustments	(93,250)	(253,850)	1,078	(346,022)
Net Position - Beginning (as restated)	3,186,160	4,430,898	46,142	7,663,200
Net Position - Ending	\$ 3,099,200	\$ 4,559,309	\$ (22,107)	\$ 7,636,402

The notes to the basic financial statements are an integral part of this statement.

**CITY OF FARMERSVILLE**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Refuse Fund	Total
Cash Flows from Operating Activities:				
Cash received from customers	\$ 546,795	\$ 799,101	\$ 521,099	\$ 1,866,995
Cash payments to employees	(299,862)	(286,444)	(73,924)	(660,230)
Cash payments to suppliers	(271,473)	(211,352)	(448,807)	(931,632)
Net Cash Provided by (Used in) Operating Activities	(24,540)	301,305	(1,632)	275,133
Cash Flow from Noncapital and Related Financing Activities:				
Cash received from grants	-	-	(5,000)	(5,000)
Net Cash Provided by (Used in) Noncapital and Related Financing Activities	-	-	(5,000)	(5,000)
Cash Flows from Capital and Related Financing Activities:				
Cash received from connection fees	4,488	5,459	-	9,947
Cash received from developer fees	-	4,966	-	4,966
Other cash payments	-	4,800	-	4,800
Acquisition of fixed assets/transfer to general fund	(90,397)	(844,462)	-	(934,859)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(85,909)	(829,237)	-	(915,146)
Cash Flows from Investing Activities:				
Interest on investments	1,904	4,026	187	6,117
Net Cash Provided by (Used in) Investing Activities	1,904	4,026	187	6,117
Net increase (decrease) in cash and cash equivalents	(108,545)	(523,906)	(6,445)	(638,896)
Cash and Cash Equivalents, July 1, 2012	1,561,029	2,043,518	104,804	3,709,351
Cash and Cash Equivalents, June 30, 2013	\$ 1,452,484	\$ 1,519,612	\$ 98,359	\$ 3,070,455

**Reconciliation of Operating Income (Loss) to Net Cash  
Provided (Used) by Operating Activities**

Operating Income (Loss)	\$ (92,441)	\$ 115,164	\$ (68,431)	\$ (45,708)
<i>Adjustments to reconcile operating income (loss) to net cash provided (used in) operating activities:</i>				
Depreciation	105,896	90,731	-	196,627
<i>Change in Assets and Liabilities:</i>				
(Increase) decrease in consumer receivables	(5,067)	(12,465)	(4,728)	(22,260)
Increase (decrease) in accounts payable	(17,248)	122,778	75,036	180,566
Increase (decrease) in salaries and benefits payable	13,570	13,570	13,570	40,710
Increase (decrease) in compensated absences	(29,250)	(28,473)	(17,079)	(74,802)
Net Cash Provided (Used in) Operating Activities	\$ (24,540)	\$ 301,305	\$ (1,632)	\$ 275,133

The notes to the basic financial statements are an integral part of this statement.

**CITY OF FARMERSVILLE**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2013**

	Successor Agency Trust Fund	Agency Funds
<u>Assets</u>		
Cash and cash equivalents	\$ -	\$ 40,256
Cash and cash equivalents - restricted	219,000	-
Accounts receivable	-	703
Capital assets (net)	<u>4,286,789</u>	<u>-</u>
Total Assets	<u>4,505,789</u>	<u>40,959</u>
<u>Liabilities</u>		
Cash overdraft	178,115	-
Accounts payable	274,611	355
Due to other agencies	-	741
Customer deposits	-	39,863
Interest payable	25,962	-
Loan payable - current	101,119	-
Loan payable	<u>2,361,301</u>	<u>-</u>
Total Liabilities	<u>2,941,108</u>	<u>\$ 40,959</u>
<u>Net Position</u>		
Net position held in trust for redevelopment dissolution and other purposes	<u>\$ 1,564,682</u>	

The notes to the basic financial statements are an integral part of this statement.

**CITY OF FARMERSVILLE**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Successor Agency Trust Fund</u>
ADDITIONS	
Property taxes	\$ 257,353
Investment income	(82)
Other revenues	<u>5,843</u>
Total additions	<u>263,114</u>
DEDUCTIONS	
Due Diligence Review payment	147,318
Debt payment - interest	100,980
Redevelopment expenses	40,924
Depreciation	<u>202,418</u>
Total deductions	<u>491,640</u>
Change in net position	(228,526)
Net Position - Beginning	1,579,884
Prior period adjustment	<u>213,324</u>
Net Position - Ending	<u><u>\$ 1,564,682</u></u>

The notes to the basic financial statements are an integral part of this statement.

## **CITY OF FARMERSVILLE**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2013**

#### **NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES**

The financial statements of City of Farmersville (the “City”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the government’s accounting principles are described below.

##### **Reporting Entity**

The City of Farmersville was incorporated in 1960 and is a general law city. The City operates under a Council-Manager form of government and provides the following services to the community: public safety (police, fire and animal control), water, sanitation (solid waste disposal and sanitary wastewater), parks and recreation, community development, childcare, public works, and general administrative services.

##### **Basis of Presentation**

*Government-Wide Statements:* The statement of net position and the statement of activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the City’s funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. An accompanying schedule is presented to reconcile and explain the differences in funds and changes in fund balances as presented in these statements to the net position and changes in net position presented in the government-wide financial statements.

## CITY OF FARMERSVILLE

### **NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2013**

#### **NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)**

##### **Basis of Presentation (Continued)**

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The City reports the following major governmental funds:

*General Fund:* This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Federal and State Grants Special Revenue Fund:* This fund accounts for the annual federal grant that provides for development of a viable urban community by providing suitable housing, principally for low- and moderate-income residents.

*Street Tax Special Revenue Fund:* The four street funds, Surface Transportation Fund, Gas Tax Fund, Transportation Tax Fund, and Traffic Congestion Fund are combined for reporting purposes. All the revenue received in these funds is for the repair and construction of roads within the cities.

*CDBG Program Income Special Revenue Fund:* This fund accounts for the loans and repayments on CDBG housing loans to benefit low- and moderate-income people.

*Child Care Special Revenue Fund:* This fund accounts for child care services provided for the community of Farmersville.

*Low and Moderate Income Housing Asset Special Revenue Fund:* This fund accounts for housing assets related to the Low and Moderate Income Housing Program retained by the City following the dissolution of the Agency on February 1, 2012.

The City has three enterprise funds, the Water, Sewer and Refuse, which are used to account for operations that are financed and operated in a manner similar to a private business enterprise. In an Enterprise Fund, the intent of the City Council is that the costs (expenses, including depreciation) of providing services to the general public, on a continuing basis, be financed or recovered primarily through user charges.

The City reports the following major proprietary fund types:

*Water Fund:* Accounts for financial activity of the water utility.

*Sewer Fund:* Accounts for financial activity of the sewage collection and wastewater treatment utility.

*Refuse Fund:* Accounts for financial activity of the refuse collection and disposal utility.



## **CITY OF FARMERSVILLE**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2013**

#### **NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)**

##### **Basis of Presentation (Continued)**

The City reports the following fiduciary fund types:

The *Successor Agency Trust Fund* accounts for the assets and liabilities of the former Redevelopment Agency and its allocated revenue to pay estimated installment payments of the enforceable obligations until the obligations of the former Redevelopment Agency are paid in full and assets have been liquidated.

The Agency funds account for assets held by the City as an agent for individuals, private organizations and other governmental units. Agency funds are custodial in nature and do not involve measurement of results of operations.

##### **Measurement Focus, Basis of Accounting**

*Government-Wide, Proprietary, and Fiduciary Fund Financial Statements:* The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect), as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

## **CITY OF FARMERSVILLE**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2013**

#### **NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)**

##### **Assets, Liabilities and Net Position**

###### **Cash and Cash Equivalents**

Under the City's cash management program, cash in excess of operating requirements from all funds is pooled with the purpose of maximizing interest through investment activities. Interest income on pooled investments is allocated on the end-of-month balance in each fund included in the pools.

For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

###### **Property Tax Calendar**

Revenue is recognized when measurable and available. The assessment, levy and collection of property taxes are the responsibility of the County of Tulare. The City records property taxes as revenue when received from the County, except at year-end, when property taxes received within 60 days after the end of the fiscal year are "available" and, therefore, recognized as revenue.

Secured and unsecured property taxes are levied based on the assessed value as of January 1, lien date, of the preceding fiscal year. Secured property tax is levied on July 1 and due in two installments, on November 1 and February 1. Collection dates are December 10 and April 10, which are also the delinquent dates. Unsecured property tax is levied on July 1 and due on July 31, and has a collection date of August 31, which is also the delinquent date.

###### **Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "interfund advances receivable/payable" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Proprietary Fund receivables are shown net of an allowance for uncollectible accounts. Allowances of uncollectibles were \$1,520 for Water utility charges, \$3,987 for Sewer utility charges, and \$3,228 for Refuse utility charges as of June 30, 2013. Utility customers are billed monthly.

###### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., street system, landscaped area, etc.), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$2,500. Donated capital assets are valued at estimated fair market value on the date received. Gains or losses on assets at retirement or disposal are recorded in the same fiscal year the asset is retired. Renewals and betterments are capitalized when purchased. Maintenance and repairs are charged to expense when the services are rendered. Depreciation is recorded on a straight-line basis over the useful lives of the asset as follows:

Buildings and Improvements.....	25-35 years
Equipment and Vehicles .....	7-20 years
Utility System .....	30-75 years
Infrastructure .....	40 years

## CITY OF FARMERSVILLE

### **NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2013**

#### **NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)**

##### **Assets, Liabilities and Net Position (Continued)**

###### **Compensated Absences**

City employees accumulate vacation pay in varying amounts as services are provided. All outstanding vacation pay is payable upon termination of employment. In the governmental funds, the amount of vacation pay recognized during the year is the amount liquidated with expendable available financial resources. In the Proprietary Funds, the amount of vacation pay recognized is the amount earned during the year.

City employees accrue sick leave in varying amounts as services are provided. Sick leave benefits do not vest with employees. However, employees who have worked for the City for more than five years are entitled to 20-30% of their accumulated sick leave at the time of termination. Unused sick leave is added to the creditable service period for calculation of retirement benefits when an employee retires. Accumulated vacation and compensated time are accrued, as appropriate, for all funds.

###### **Unearned Revenue**

Unearned revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City typically records intergovernmental revenues (primary grants and subventions) received but not earned (qualifying expenditures not yet incurred).

###### **Unavailable Revenue**

In the fund financial statements, unavailable revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records unavailable revenue for transactions for which revenues have been earned, but for which funds are not available to meet current financial obligations. Typical transactions for which unavailable revenue is recorded are grants when funding requirements have been met, but the related funding is not yet available.

###### **Net Position**

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is classified in the following categories:

- ***Net investment in capital assets*** – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.
- ***Restricted net position*** – This category represents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- ***Unrestricted Net Position*** – This category represents net amounts that do not meet the criteria for “restricted” or “net investment in capital assets”.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted first, and then unrestricted resources as they are needed.

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Net Position (Continued)**

**Fund Balances**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in governmental fund financial statements are as follows:

**Nonspendable Fund Balance**

Amounts cannot be spent either because they are in nonspendable form (such as inventory or prepaid expense, and long-term loans and notes receivable) or because they are legally or contractually required to be maintained intact (such as principal of a permanent fund).

**Restricted Fund Balance**

Amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, contributors, or laws or regulations of other governments, etc.) or imposed by law through constitutional provisions or enabling legislation.

**Committed Fund Balance**

Amounts that can only be used for specific purposes pursuant to constraints imposed by City Council, the City's highest level of decision-making authority, through an ordinance or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified uses through the same type of formal action taken to establish the commitment.

**Assigned Fund Balance**

Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Intent is expressed by the City Council or its designee and may be changed at the discretion of the City Council or its designee. For all governmental funds other than the General Fund, any remaining positive amounts not classified as nonspendable, restricted or committed must be designated as assigned fund balance.

**Unassigned Fund Balance**

These are either residual positive net resources of the General Fund in excess of what can properly be classified in one of the other four categories, or negative balances in all other funds.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.

**Encumbrances**

The City does not use encumbrance accounting.

## **CITY OF FARMERSVILLE**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2013**

#### **NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)**

##### **Assets, Liabilities and Net Position (Continued)**

##### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures (expenses) during the reporting period. Actual results could differ from those estimates.

##### **Pronouncements**

##### **New Accounting Pronouncements Adopted**

##### **Governmental Accounting Standards Board Statement No. 60**

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements ("SCAs"), which are a type of public-private or public-public partnership. This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. This statement did not have any effect on the City's financial statements.

##### **Governmental Accounting Standards Board Statement No. 61**

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. The requirements of this statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. This statement did not have any effect on the City's financial statements.

##### **Governmental Accounting Standards Board Statement No. 62**

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedures which does not conflict with or contradict other GASB pronouncements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. As of July 1, 2012, the City adopted this standard, which did not have a significant impact on its financial statements.

## **CITY OF FARMERSVILLE**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2013**

#### **NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)**

##### **Assets, Liabilities and Net Position (Continued)**

##### **Pronouncements (Continued)**

##### **New Accounting Pronouncements Adopted (Continued)**

##### ***Governmental Accounting Standards Board Statement No. 63***

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and renames the resulting measure as net position rather than net assets. The provisions of this Statement are effective for financial statements with periods beginning after December 31, 2011. As of July 1, 2012, the City adopted this standard, which did not have a significant impact on its financial statements. The City renamed net assets as net position in the current year financial statements.

##### ***Governmental Accounting Standards Board Statement No. 65***

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014. As of July 1, 2012, the City adopted this standard, which did not have a significant impact on its financial statements.

##### **New Accounting Pronouncements Not Yet Adopted**

##### ***Governmental Accounting Standards Board Statement No. 68***

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014.

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Net Position (Continued)**

**Pronouncements (Continued)**

**New Accounting Pronouncements Not Yet Adopted (Continued)**

**Governmental Accounting Standards Board Statement No. 69**

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement requires disclosure to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2015.

**Government Accounting Standards Board Statement No. 70**

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The requirements of this Statement are effective for the City's fiscal year ending June 30, 2014.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

The City maintains a cash investment pool that is available for all funds. Each fund type balance in the pool is reflected on the combined balance sheet as cash and investments. The City follows the practice of pooling cash and investments of all funds. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on the average daily cash and investment balances.

**Summary of Deposits and Investments**

Cash and investments at June 30, 2013 are classified in the accompanying financial statements as follows:

	Government-Wide Statement of Net Position		Fiduciary Fund	Total
	Governmental Activities	Business-type Activities		
Cash and Investments	\$ 3,296,481	\$ 3,070,455	\$ 40,256	\$ 6,407,192
Cash Overdraft	-	-	(178,115)	(178,115)
Restricted Cash and Investments	-	-	219,000	219,000
Total Cash and Investments	<u>\$ 3,296,481</u>	<u>\$ 3,070,455</u>	<u>\$ 81,141</u>	<u>\$ 6,448,077</u>

Cash and investments consist of the following as of June 30, 2013:

Cash on Hand	\$ 1,050
Deposits with Financial Institutions	2,759,212
Investments	<u>3,687,815</u>
Total Cash and Investments	<u>\$ 6,448,077</u>

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**

**Investments Authorized by the California Government Code and the City's Investment Policy**

The investment policy of the City is consistent with guidelines set forth under State of California Government Code Section 53601 and serves to maximize investment income consistent with safe and prudent investment practices. All surplus funds are managed by the City Manager in compliance with the Statement of Investment Policy adopted by the City Council, which delegates to the City Manager the authority to invest City funds and to deposit securities. All investments are carried at fair value in accordance with GASB Statement No. 31.

Under provision of the City's investment policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies
- Negotiable Certificates of Deposit
- Bankers' Acceptances
- Commercial Paper
- Local Agency Investment Fund Deposits (State Pool)
- Passbook Savings Account Demand Deposits
- Repurchase Agreements
- Reverse Repurchase Agreements
- Small Business Administration Loans

All City investment activities were within State statutes and the City's investment policy.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

		Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Investment Type					
State Investment Pool	\$ 3,687,815	\$ 3,687,815	\$ -	\$ -	\$ -
Total	\$ 3,687,815	\$ 3,687,815	\$ -	\$ -	\$ -



**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment Type		Exempt from Disclosure	Rating as of Year-End		
			AAA	AAAm	Not Rated
State Investment Pool	\$ 3,687,815	\$ -	\$ -	\$ -	\$ 3,687,815
Total	\$ 3,687,815	\$ -	\$ -	\$ -	\$ 3,687,815

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the concentration of the government's investment in a single issuer. The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2013, no investment in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) represents 5% or more of the total City's total investments.

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The City may and has waived collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

The carrying amounts of the City's cash deposits totaled \$2,759,212 at June 30, 2013. Bank balances were \$2,901,014, the total amount of which was insured and/or collateralized with securities held by the pledging financial institutions in the City's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2013, there were no investments that were required to be identified by GASB Statement No. 40 in relation to custodial credit risk.

## **CITY OF FARMERSVILLE**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2013**

#### **NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**

##### **Local Agency Investment Fund**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight to the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The City's investments with LAIF at June 30, 2013 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgaged-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2013, the City had \$3,687,815 invested in LAIF. Fair value of the City's LAIF investments was \$3,688,822 as of June 30, 2013. This is arrived at by multiplying the City's LAIF account balance by a fair value factor determined by LAIF. The fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost, resulting in a factor of 1.000273207.

#### **NOTE 3 – LOAN RECEIVABLE / UNAVAILABLE REVENUE**

##### **Forgivable Loans:**

The grant funds expended for rehabilitation under the Community Development Block Grant Program are recorded as expenditures in the year the loans are made to participants, even though the amounts will be recovered as the loans are repaid. The City maintains detailed records of these loans and records loan principal and interest payments as program revenues in the year such payments are received. Loans recorded as receivable are "performing" loans with monthly/annual activity.

Deferred payment loans receivable under the Community Development Block Grant, HOME Investment Program, and CalHOME Programs are not required to be paid back until the participating homeowner sells, transfers title to the rehabilitated property, or discontinues residence in the dwelling at which time the full amount of the deferred loan is due. Deferred payment loans are "non-performing loans" and are not recorded as receivable or unavailable revenue. Such loans totaled \$9,044,992 as of June 30, 2013.

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 3 – LOAN RECEIVABLE / UNAVAILABLE REVENUE (Continued)**

Loans receivable consisted of the following as of June 30, 2013:

**Low and Moderate Income Housing Asset Special Revenue Fund**

On October 1, 2004, Farmersville Redevelopment Agency loaned Farmersville Park Creek Associates the amount of \$100,000 for acquisition of real property and construction of forty-seven units of affordable housing for families and one unit for a resident manager. The agreement specified that the loan will be repaid in thirty years, with interest equal to 1% per annum.

\$ 98,171

On August 20, 2009, Farmersville Redevelopment Agency loaned Farmersville Gateway Associates the amount of \$200,000 for acquisition of real property and construction of forty-seven units of affordable housing for families and one unit of a resident manager. The agreement specified that the loan will be repaid in thirty years, with interest equal to 1% per annum.

200,000

The City administers a housing rehabilitation loan program. Under this program, individuals with incomes below certain levels are eligible to receive low interest loans for rehabilitation work on their homes. These performing loans are secured by deeds of trust on the rehabilitated properties.

404,467

**Community Development Block Grant Program Income Special Revenue Fund**

The City administers a housing rehabilitation loan program funded with Community Development Block Grant funds. Under this program, individuals with incomes below certain levels are eligible to receive low interest loans for rehabilitation work on their homes. These performing loans are secured by deeds of trust on the rehabilitated properties.

5,569

On February 1, 2010, the City entered into a promissory note with Farmersville Senior Associates to provide a loan of \$1,900,000, which Farmersville Senior Associates can drawdown as needed. The loan is due in fifty-five years at 5% interest and will be repaid from residual receipts generated by the project.

1,900,000

Total Loans Receivable \$ 2,608,207

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 4 – INTERFUND TRANSACTIONS**

Interfund loans receivable and payable consisted of the following at June 30, 2013:

	Due		Advances	
	From	To	To	From
Major Funds:				
General Fund	\$ 241,587	\$ -	\$ -	\$ 91,950
Federal and State Grants Special Revenue Fund	-	177,831	-	-
Childcare Special Revenue Fund	-	49,993	-	-
Nonmajor Funds:				
Developer Fees Special Revenue Fund	-	-	91,950	-
Federal Grants Special Revenue Fund	-	13,763	-	-
Total	<u>\$ 241,587</u>	<u>\$ 241,587</u>	<u>\$ 91,950</u>	<u>\$ 91,950</u>

The balance of \$177,831 due to the General Fund from the Federal and State Grants Special Revenue Fund represents short-term borrowing resulting from temporary need for additional cash. This amount expected to be repaid shortly after the end of the fiscal year.

The balance of \$49,993 due to the General Fund from the Child Care Special Revenue Fund resulted from the time lag between the dates that interfund reimbursable expenditures occur.

The balance of \$13,763 due to the General Fund from the Federal Grants Special Revenue Fund represents short-term borrowing resulting from temporary need for additional cash. This amount expected to be repaid shortly after the end of the fiscal year.

The balance of \$91,950 for advances from other funds in the General Fund is for "Demand Notes" with unstated demand dates that consist of cash advances from the Developer Fees Special Revenue Fund. The loans were made in fiscal year 2011. The City has indicated that there are no plans to collect on the notes due to the Developer Fees Special Revenue Fund within the next year.

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 5 – CAPITAL ASSETS**

A summary of capital assets activity for the year ended June 30, 2013 is as follows:

	Balances June 30, 2012 (restated)	Acquisitions	Dispositions	Balances June 30, 2013
<b>Governmental Activities:</b>				
<i>Non-depreciable assets:</i>				
Land	\$ 1,039,648	\$ -	\$ -	\$ 1,039,648
Infrastructure in progress	<u>816,671</u>	<u>300,578</u>	<u>-</u>	<u>1,117,249</u>
Total non-depreciable assets	<u>1,856,319</u>	<u>300,578</u>	<u>-</u>	<u>2,156,897</u>
<i>Depreciable assets:</i>				
Buildings and improvements	2,452,454	-	-	2,452,454
Vehicles, machinery and equipment	2,079,766	41,877	-	2,121,643
Infrastructure	<u>5,579,214</u>	<u>157,398</u>	<u>-</u>	<u>5,736,612</u>
Total depreciable assets	<u>10,111,434</u>	<u>199,275</u>	<u>-</u>	<u>10,310,709</u>
Less accumulated depreciation for:				
Buildings and improvements	983,667	80,826	-	1,064,493
Vehicles, machinery and equipment	1,436,139	123,119	-	1,559,258
Infrastructure	<u>600,368</u>	<u>163,485</u>	<u>-</u>	<u>763,853</u>
Total accumulated depreciation	<u>3,020,174</u>	<u>367,430</u>	<u>-</u>	<u>3,387,604</u>
Depreciable assets, net	<u>7,091,260</u>	<u>(168,155)</u>	<u>-</u>	<u>6,923,105</u>
Government Activities Capital Assets, Net	<u>\$ 8,947,579</u>	<u>\$ 132,423</u>	<u>\$ -</u>	<u>\$ 9,080,002</u>

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 5 – CAPITAL ASSETS (Continued)**

	Balances June 30, 2012 (restated)	Acquisitions	Dispositions	Balances June 30, 2013
<b>Business-Type Activities:</b>				
<i>Non-depreciable assets:</i>				
Land	\$ 309,064	\$ 639,119	\$ -	\$ 948,183
Construction in progress	<u>20,081</u>	<u>211,677</u>	<u>-</u>	<u>231,758</u>
Total non-depreciable assets	<u>329,145</u>	<u>850,796</u>	<u>-</u>	<u>1,179,941</u>
<i>Depreciable assets:</i>				
Buildings and improvements	152,061	-	-	152,061
Vehicles, machinery and equipment	1,239,219	24,840	-	1,264,059
Utility transmission structures	<u>5,431,202</u>	<u>86,837</u>	<u>-</u>	<u>5,518,039</u>
Total depreciable assets	<u>6,822,482</u>	<u>111,677</u>	<u>-</u>	<u>6,934,159</u>
Less accumulated depreciation for:				
Buildings and improvements	46,695	6,290	-	52,985
Vehicles, machinery and equipment	905,476	56,177	-	961,653
Utility transmission structures	<u>2,185,284</u>	<u>134,160</u>	<u>-</u>	<u>2,319,444</u>
Total accumulated depreciation	<u>3,137,455</u>	<u>196,627</u>	<u>-</u>	<u>3,334,082</u>
Depreciable assets, net	<u>3,685,027</u>	<u>(84,950)</u>	<u>-</u>	<u>3,600,077</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,014,172</u>	<u>\$ 765,846</u>	<u>\$ -</u>	<u>\$ 4,780,018</u>

Depreciation expense was charged to the following functions on the statement of activities:

<b>Governmental Activities:</b>	
Administration	\$ 56,944
Public safety - law enforcement	58,642
Public safety - fire	29,956
Street construction and maintenance	163,009
Recreation and parks	26,151
Community development	10,934
Childcare center operation	21,794
<b>Business-Type Activities:</b>	
Water	105,896
Sewer	<u>90,731</u>
Total	<u>\$ 564,057</u>

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 6 – DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

The City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of June 30, 2013.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any items to report as a deferred outflow of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type, which is unavailable revenue. The unavailable revenues arise only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenues, is reported only in the governmental funds balance sheet. Deferred inflows of resources reported in the governmental funds for unavailable revenues are as follows:

	Federal and State Grants Special Revenue Fund	Child Care Special Revenue Fund	CDBG Program Income Special Revenue Fund	Low and Moderate Income Housing Asset Special Revenue Fund	Total Governmental Funds
Intergovernmental	\$ 520,178	\$ 53,124	\$ -	\$ -	\$ 573,302
Loans	-	-	1,905,570	702,638	2,608,208
Total	<u>\$ 520,178</u>	<u>\$ 53,124</u>	<u>\$ 1,905,570</u>	<u>\$ 702,638</u>	<u>\$ 3,181,510</u>

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 7 – COMPENSATED ABSENCES**

As described in Note 1, under certain circumstances and accordingly to the negotiated labor agreements, City employees are allowed to accumulate annual leave. The annual leave amount is accrued and accounted as compensated absences in the government-wide and proprietary fund statements.

As shown in the table below, the long-term portion of this debt amounts to \$367,138 for governmental activities and \$37,832 for business-type activities at June 30, 2013. These amounts are expected to be paid in future years from future resources. In prior years, compensated absences have been liquidated primarily by the General Fund and the proprietary funds. The total amount outstanding at June 30, 2013 was \$458,922 for governmental activities and \$47,290 for business-type activities.

	Balances June 30, 2012	Additions	Deletions	Balances June 30, 2013	Amount Due Within One Year
Governmental Activities	\$ 545,973	\$ -	\$ (87,051)	\$ 458,922	\$ 91,784
Business-Type Activities	\$ 122,092	\$ -	\$ (74,802)	\$ 47,290	\$ 9,458

**NOTE 8 – PENSION PLAN**

**Plan Description**

The City's defined benefit pension plans, the Miscellaneous Plan and the Safety Plan, provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous and Safety Plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined benefit pension plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. State statutes within the Public Employees' Retirement Law establish a menu of benefit provisions as well as other requirements. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95814.

**Funding Policy**

CalPERS implemented a change for fiscal year 2012-2013, based on the passage of Assembly Bill (AB) 340. AB 340 created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation periods, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of new member under PEPRA. The City will assign employees as either "Classic" or "PEPRA" which have different contribution rates reflected in the following paragraphs.

Active "Classic" plan members in the Miscellaneous and Safety plans are required to contribute 7.0% of their annual covered salary. At this time, the City makes the contribution on behalf of the employee. The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 16.723% for miscellaneous employees and 15.608% for safety employees, of annual payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Active "PEPRA" plan members in the Miscellaneous and Safety plans are required to contribute 6.25% and 9.50%, respectively, of their annual covered salary. The City is required to match the same percentages for the employer contribution rate.



**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 8 – PENSION PLAN (Continued)**

**Annual Pension Cost**

For fiscal year 2012/2013, the City's annual pension cost for Miscellaneous and Safety plans was \$147,142 and \$203,199, respectively. The actual contributions were equal to the City's required contributions. The required contribution for fiscal year 2012/2013 was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.55% to 14.45% for members of both plans depending on age, service and type of employment; and (c) 3% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of CalPERS assets was determined using a technique that smoothes the effects of short-term volatility in the market value of investments over a 15-year period (smoothed market value).

The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2010 actuarial valuation date was 24 years for Miscellaneous Plan and 26 years for Safety Plan.

The City's contributions to CalPERS for Miscellaneous Plan and Safety Plan for the three years ending June 30, 2011, 2012, and 2013 are presented below:

**Three-Year Trend Information for CalPERS Defined Benefit Pension Plans**

<u>Fiscal Year Ended</u>	<u>Annual Pension Costs (APC)</u>	<u>Percent of APC Contributed</u>	<u>Net Pension Obligation</u>
<u>Miscellaneous Plan</u>			
06/30/11	\$ 123,600	100%	\$ 0
06/30/12	\$ 153,965	100%	\$ 0
06/30/13	\$ 147,142	100%	\$ 0
<u>Safety Plan</u>			
06/30/11	\$ 148,433	100%	\$ 0
06/30/12	\$ 174,986	100%	\$ 0
06/30/13	\$ 203,199	100%	\$ 0

**Funded Status and Funding Progress**

The funded status of each plan as of the most recent actuarial valuation date presented below related to the plan as a whole, of which the City is one participating employer.

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
<u>Miscellaneous:</u>						
6/30/2012	\$ 736,231,913	\$ 701,224,211	\$ 35,007,702	95.2%	\$ 208,517,122	16.8%
<u>Safety:</u>						
6/30/2012	\$ 84,829,856	\$ 75,003,561	\$ 9,826,295	88.4%	\$ 21,079,631	46.6%

The schedule of funding progress, presented as RSI following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 9 – RISK MANAGEMENT**

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first \$1,000,000 of each general liability claim and \$250,000 of each workers' compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$25,000 and workers' compensation losses under \$25,000. The CSJVRMA participates in an excess pool that provides general liability coverage from \$1,000,000 to \$10,000,000. The CSJVRMA participates in an excess pool that provides workers' compensation coverage from \$250,000 to \$500,000 and purchases excess insurance above the \$500,000 to the statutory limit.

The Central San Joaquin Valley Risk Management Authority is a consortium of fifty-four (54) cities in the San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500 et. Seq. The Central San Joaquin Valley Risk Management Authority is governed by a Board of Directors, which meets 3-4 times per year, and consists of one member appointed by each member city. A management group employed by CSJVRMA handles the day-to-day business.

The summary financial position and results of operations for CSJVRMA, as of June 30, 2013, is presented as follows:

Total assets	\$ 82,190,005
Total liabilities	<u>66,304,596</u>
Total net position	<u>\$ 15,885,409</u>
Revenues	\$ 30,744,973
Expenses	<u>27,142,583</u>
Change in net position	<u>\$ 3,602,390</u>

At the terminations of the joint venture agreement and after all claims have been settled, any excess or deficit will be divided among the cities in proportion to the aggregate amount of contribution made by each.

**NOTE 10 – PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA**

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City was \$102,012. The City has received payment from the State in fiscal year 2012-13.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (fiscal year 2012-13). In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

There are various claims and legal actions pending against the City for which no provision has been made in the financial statements. In the opinion of the City Attorney and City Management, liabilities arising from these claims and legal actions, if any, will not be material to these financial statements.

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**NOTE 12 – SUCCESSOR AGENCY TRUST FUND**

On January 17, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with Assembly Bill 1X26 (the Bill") which dissolved all redevelopment agencies in the State of California.

Under the control of an oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution of the redevelopment agency (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

Successor agencies are only allocated revenue in the amount that is necessary to pay estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

After the date of the dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

***Capital Assets***

Capital assets activity of the Successor Agency Trust Fund as of June 30, 2013 is as follows:

	Balances June 30, 2012 (restated)	Acquisitions	Dispositions	Balances June 30, 2013
<b>Successor Agency Trust Fund:</b>				
<i>Non-depreciable assets:</i>				
Land	\$ 525,457	\$ -	\$ -	\$ 525,457
Infrastructure in progress	-	-	-	-
Total non-depreciable assets	525,457	-	-	525,457
<i>Depreciable assets:</i>				
Buildings and improvements	3,772,399	-	-	3,772,399
Vehicles, machinery and equipment	234,075	-	-	234,075
Total depreciable assets	4,006,474	-	-	4,006,474
Less accumulated depreciation for:				
Buildings and improvements	49,779	125,747	-	175,526
Vehicles, machinery and equipment	51,768	17,848	-	69,616
Total accumulated depreciation	101,547	143,595	-	245,142
Depreciable assets, net	3,904,927	(143,595)	-	3,761,332
Capital Assets, Net	\$ 4,430,384	\$ (143,595)	\$ -	\$ 4,286,789

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 12 – SUCCESSOR AGENCY TRUST FUND (Continued)**

***Long-term Debt***

Long-term debt reported in the Successor Agency Trust Fund at June 30, 2013 was comprised of the following:

	<u>Balances June 30, 2012</u>	<u>Issued</u>	<u>Retired</u>	<u>Balances June 30, 2013</u>	<u>Due Within One Year</u>
USDA Loan	\$ 2,766,890	\$ -	\$ (304,470)	\$ 2,462,420	\$ 101,119
<b>Total Long-Term Debt</b>	<b>\$ 2,766,890</b>	<b>\$ -</b>	<b>\$ (304,470)</b>	<b>\$ 2,462,420</b>	<b>\$ 101,119</b>

**USDA Loan**

On August 11, 2009, the Farmersville Redevelopment Agency entered into loan agreement with the United States Department of Agriculture (the "USDA") for construction of a community center. The loan not-to-exceed amount is \$2,971,200 and the loan will be repayable over a period not to exceed 30 years from the date of loan closing at the intermediate interest rate of 4.375%. The first interest installment is due no later than one full year from the date of loan closing. The outstanding loan balance as of June 30, 2013 is \$2,462,420.

Annual debt service requirements to maturity of the USDA Loan are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 101,119	\$ 96,474	\$ 197,593
2015	105,626	92,340	197,966
2016	110,312	88,021	198,333
2017	115,186	83,511	198,697
2018	120,255	78,802	199,057
2019-2023	684,698	315,840	1,000,538
2024-2028	845,538	163,322	1,008,860
2029-2030	<u>379,686</u>	<u>15,128</u>	<u>394,814</u>
<b>Total</b>	<b>\$ 2,462,420</b>	<b>\$ 933,438</b>	<b>\$ 3,395,858</b>

**CITY OF FARMERSVILLE**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 13 – DEFICIT FUND BALANCES**

The following funds had deficit fund equity at June 30, 2013:

Major Funds:

Federal and State Grants Special Revenue Fund	\$ (339,669)
Child Care Special Revenue Fund	\$ (76,623)
Refuse Enterprise Fund	\$ (22,107)

Nonmajor Funds:

Federal Grants Special Revenue Fund	\$ (13,763)
-------------------------------------	-------------

These deficits will be eliminated through future revenues or transfers from other funds.

**NOTE 14 – PRIOR PERIOD ADJUSTMENTS**

The City did not properly reconcile its account balances as of June 30, 2012, resulting in several errors. These errors caused the City to receive a disclaimer of opinion on its 2012 financial statements. As such, several adjustments were recorded during the fiscal year ended June 30, 2013 to properly reflect opening balances as of July 1, 2012. The cumulative effect these adjustments resulted in an increase (decrease) to beginning net position/fund balance of:

	June 30, 2012 (originally reported)	Adjustment	July 1, 2012 (restated)
Governmental Activities	\$ 12,372,046	\$ 1,547,715	\$ 13,919,761
General Fund	934,070	281,160	1,215,230
Water Fund	3,279,410	(93,250)	3,186,160
Sewer Fund	4,684,748	(253,850)	4,430,898
Refuse Fund	45,064	1,078	46,142

**NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through April 9, 2014, the date the financial statements were available to be issued. Except as described above, no other events requiring recognition or disclosure in the financial statements were identified.

## REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FARMERSVILLE**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2013**

Both of the City's defined benefit pension plans, the Miscellaneous Plan and the Safety Plan, are cost-sharing multiple-employer defined benefit pension plans that provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The information presented in below in the schedule of funding progress and employer contributions relates to the plan as a whole, of which the City is one participating employer.

Miscellaneous:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2010	\$ 624,423,437	\$ 594,492,164	\$ 29,931,273	95.2%	\$ 186,777,830	16.0%
6/30/2011	\$ 682,375,804	\$ 639,237,247	\$ 43,138,557	93.7%	\$ 193,877,169	22.3%
6/30/2012	\$ 736,231,913	\$ 701,224,211	\$ 35,007,702	95.2%	\$ 208,517,122	16.8%

Safety:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2010	\$ 80,550,533	\$ 69,069,025	\$ 11,481,508	85.7%	\$ 21,754,150	52.8%
6/30/2011	\$ 87,234,077	\$ 74,508,206	\$ 12,725,871	85.4%	\$ 21,957,452	58.0%
6/30/2012	\$ 84,829,856	\$ 75,003,561	\$ 9,826,295	88.4%	\$ 21,079,631	46.6%

**CITY OF FARMERSVILLE**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 1,050,000	\$ 1,050,000	\$ 1,369,277	\$ 319,277
Sales taxes	672,000	672,000	749,852	77,852
Other taxes	134,500	134,500	131,709	(2,791)
Licenses and permits	67,500	67,500	60,436	(7,064)
Charges for services	138,700	138,700	132,584	(6,116)
Intergovernmental	55,294	55,294	169,232	113,938
Fines and penalties	38,500	38,500	25,131	(13,369)
Investment income	1,000	1,000	3,002	2,002
Rent	129,800	129,800	135,368	5,568
Cost reimbursement	-	-	26,856	26,856
Miscellaneous revenue	1,000	1,000	43,010	42,010
Total Revenues	<u>2,288,294</u>	<u>2,288,294</u>	<u>2,846,457</u>	<u>558,163</u>
Expenditures:				
Current:				
City council	3,800	3,800	1,268	2,532
Administration	206,054	206,054	334,041	(127,987)
Library	4,900	4,900	6,493	(1,593)
Public safety:				
Law enforcement	1,596,401	1,604,401	1,782,466	(178,065)
Fire services	205,583	205,583	286,973	(81,390)
Animal control	105,960	105,960	109,850	(3,890)
Buildings and grounds	48,896	48,896	79,391	(30,495)
Recreation and parks	7,200	7,200	6,000	1,200
Street construction and maintenance	5,000	5,000	6,429	(1,429)
Community development	116,600	116,600	83,506	33,094
Capital outlay	18,000	18,000	48,205	(30,205)
Total Expenditures	<u>2,318,394</u>	<u>2,326,394</u>	<u>2,744,622</u>	<u>(418,228)</u>
Net change in fund balance	(30,100)	(38,100)	101,835	139,935
Fund Balances, July 1, 2012	934,070	934,070	934,070	-
Prior period adjustment	-	-	281,160	281,160
Fund Balances, June 30, 2013	<u>\$ 903,970</u>	<u>\$ 895,970</u>	<u>\$ 1,317,065</u>	<u>\$ 421,095</u>



**CITY OF FARMERSVILLE**

**BUDGETARY COMPARISON SCHEDULE  
FEDERAL AND STATE GRANTS SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental	\$ 1,000,000	\$ 1,000,000	\$ 896,491	\$ (103,509)
Miscellaneous revenue	<u>-</u>	<u>-</u>	<u>5,296</u>	<u>5,296</u>
Total Revenues	<u>1,000,000</u>	<u>1,000,000</u>	<u>901,787</u>	<u>(98,213)</u>
Expenditures:				
Current:				
Community development	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,022,751</u>	<u>(22,751)</u>
Total Expenditures	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,022,751</u>	<u>(22,751)</u>
Net change in fund balance	-	-	(120,964)	(120,964)
Fund Balances, July 1, 2012	<u>(218,705)</u>	<u>(218,705)</u>	<u>(218,705)</u>	<u>-</u>
Fund Balances, June 30, 2013	<u>\$ (218,705)</u>	<u>\$ (218,705)</u>	<u>\$ (339,669)</u>	<u>\$ (120,964)</u>

**CITY OF FARMERSVILLE**

**BUDGETARY COMPARISON SCHEDULE  
STREET TAX SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental	\$ 528,000	\$ 528,000	\$ 494,969	\$ (33,031)
Investment income	<u>-</u>	<u>-</u>	<u>1,680</u>	<u>1,680</u>
Total Revenues	<u>528,000</u>	<u>528,000</u>	<u>496,649</u>	<u>(31,351)</u>
Expenditures:				
Current:				
Street construction and maintenance	320,169	320,169	256,771	63,398
Capital outlay	<u>306,000</u>	<u>306,000</u>	<u>476,981</u>	<u>(170,981)</u>
Total Expenditures	<u>626,169</u>	<u>626,169</u>	<u>733,752</u>	<u>(107,583)</u>
Net change in fund balance	(98,169)	(98,169)	(237,103)	(138,934)
Fund Balances, July 1, 2012	<u>1,315,692</u>	<u>1,315,692</u>	<u>1,315,692</u>	<u>-</u>
Fund Balances, June 30, 2013	<u>\$ 1,217,523</u>	<u>\$ 1,217,523</u>	<u>\$ 1,078,589</u>	<u>\$ (138,934)</u>

**CITY OF FARMERSVILLE**

**BUDGETARY COMPARISON SCHEDULE  
CDBG PROGRAM INCOME SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental	\$ -	\$ -	\$ 1,750	\$ 1,750
Investment income	<u>-</u>	<u>-</u>	<u>80</u>	<u>80</u>
Total Revenues	<u>-</u>	<u>-</u>	<u>1,830</u>	<u>1,830</u>
Expenditures:				
Current:				
Community development	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total Expenditures	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Net change in fund balance	(25,000)	(25,000)	1,830	26,830
Fund Balances, July 1, 2012	<u>59,101</u>	<u>59,101</u>	<u>59,101</u>	<u>-</u>
Fund Balances, June 30, 2013	<u>\$ 34,101</u>	<u>\$ 34,101</u>	<u>\$ 60,931</u>	<u>\$ 26,830</u>

**CITY OF FARMERSVILLE**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2013**

**NOTE 1 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**BUDGETARY INFORMATION**

Prior to July 1, the City Council adopts budgets for the governmental fund types. Following publication and public hearings, the budgets are legally enacted by resolution. The budgets are adopted on a modified accrual basis of accounting. The City Council approves budget amendments as needed during the fiscal year. The budget is prepared on a generally accepted accounting principles (GAAP) basis.

If expenditures exceed appropriations, the City Manager is authorized to transfer budgeted amounts between line items within any department. However, any revisions that alter the total appropriations of any department must be approved by the City Council. Budgeted amounts in the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on a Budgetary Basis include amendments for these supplemental appropriations.

Under GASB Statement No. 34, budgetary comparison information is required to be presented for the general fund and each major special revenue fund with a legally adopted budget. The City adopts annual operating budgets for the general fund and all special revenue funds except the Child Care Center Special Revenue Fund and the Low and Moderate Housing Asset Special Revenue Fund.

**EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

As of June 30, 2013, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><i>General Fund:</i></b>			
Current:			
Administration	\$ 206,054	\$ 334,041	\$ (127,987)
Library	4,900	6,493	(1,593)
Public safety:			
Law enforcement	1,604,401	1,782,466	(178,065)
Fire services	205,583	286,973	(81,390)
Animal control	105,960	109,850	(3,890)
Buildings and grounds	48,896	79,391	(30,495)
Street construction and maintenance	5,000	6,429	(1,429)
Capital outlay	18,000	48,205	(30,205)
<b><i>Federal and State Grants Special Revenue:</i></b>			
Current:			
Community development	1,000,000	1,022,751	(22,751)
<b><i>Street Tax Special Revenue Fund:</i></b>			
Capital outlay	306,000	476,981	(170,981)

*THIS PAGE IS LEFT BLANK INTENTIONALLY.*

## SUPPLEMENTARY INFORMATION

**CITY OF FARMERSVILLE**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2013**

	Special Revenue Funds	Capital Projects Fund	Total Nonmajor Governmental Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 567,138	\$ 203,954	\$ 771,092
Advances to other funds	<u>91,950</u>	<u>-</u>	<u>91,950</u>
Total Assets	<u><u>\$ 659,088</u></u>	<u><u>\$ 203,954</u></u>	<u><u>\$ 863,042</u></u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 13,578	\$ 554	\$ 14,132
Due to other funds	<u>13,763</u>	<u>-</u>	<u>13,763</u>
Total Liabilities	<u>27,341</u>	<u>554</u>	<u>27,895</u>
Fund Balances:			
Restricted for:			
Public safety	176,734	-	176,734
Buildings, grounds and parks	37,543	-	37,543
Community development	19,093	-	19,093
Capital maintenance	412,140	203,400	615,540
Unassigned	<u>(13,763)</u>	<u>-</u>	<u>(13,763)</u>
Total Fund Balances	<u>631,747</u>	<u>203,400</u>	<u>835,147</u>
Total Liabilities and Fund Balances (Deficits)	<u><u>\$ 659,088</u></u>	<u><u>\$ 203,954</u></u>	<u><u>\$ 863,042</u></u>

CITY OF FARMERSVILLE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Revenues:			
Property taxes	\$ 54,120	\$ -	\$ 54,120
Developer fees	5,415	1,547	6,962
Intergovernmental	72,648	-	72,648
Investment income	744	264	1,008
Loan repayments	17,580	-	17,580
Miscellaneous revenue	<u>1,117</u>	<u>-</u>	<u>1,117</u>
Total Revenues	<u>151,624</u>	<u>1,811</u>	<u>153,435</u>
Expenditures:			
Current:			
Public safety:			
Law enforcement	67,025	-	67,025
Fire services	5,941	-	5,941
Buildings, grounds and parks	1,617	-	1,617
Street construction and maintenance	49,844	1,562	51,406
Community development	31,610	-	31,610
Capital outlay	<u>13,416</u>	<u>-</u>	<u>13,416</u>
Total Expenditures	<u>169,453</u>	<u>1,562</u>	<u>171,015</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(17,829)</u>	<u>249</u>	<u>(17,580)</u>
Net changes in fund balances	(17,829)	249	(17,580)
Fund Balances, July 1, 2012	<u>649,576</u>	<u>203,151</u>	<u>852,727</u>
Fund Balances, June 30, 2013	<u>\$ 631,747</u>	<u>\$ 203,400</u>	<u>\$ 835,147</u>



**CITY OF FARMERSVILLE**

**COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2013**

	<u>Park Development Fund</u>	<u>Maintenance District</u>	<u>Developer Fees</u>	<u>Drug Enforcement Fund</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 37,543	\$ 92,056	\$ 233,156	\$ 34,327
Receivables (net of allowance for uncollectibles):				
Advances to other funds	<u>-</u>	<u>-</u>	<u>91,950</u>	<u>-</u>
Total Assets	<u>\$ 37,543</u>	<u>\$ 92,056</u>	<u>\$ 325,106</u>	<u>\$ 34,327</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ -	\$ 1,581	\$ 3,441	\$ 8,556
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>1,581</u>	<u>3,441</u>	<u>8,556</u>
Fund Balances:				
Restricted for:				
Public safety	-	-	-	25,771
Buildings, grounds and parks	37,543	-	-	-
Community development	-	-	-	-
Capital maintenance	-	90,475	321,665	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>37,543</u>	<u>90,475</u>	<u>321,665</u>	<u>25,771</u>
Total Liabilities and Fund Balances (Deficits)	<u>\$ 37,543</u>	<u>\$ 92,056</u>	<u>\$ 325,106</u>	<u>\$ 34,327</u>

<u>Police Grants</u>	<u>State and County Asset Forfeiture</u>	<u>CalHOME Program Income</u>	<u>Federal Grants</u>	<u>Totals</u>
\$ 147,057	\$ 3,906	\$ 19,093	\$ -	\$ 567,138
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,950</u>
<u>\$ 147,057</u>	<u>\$ 3,906</u>	<u>\$ 19,093</u>	<u>\$ -</u>	<u>\$ 659,088</u>
\$ -	\$ -	\$ -	\$ -	\$ 13,578
<u>-</u>	<u>-</u>	<u>-</u>	<u>13,763</u>	<u>13,763</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>13,763</u>	<u>27,341</u>
147,057	3,906	-	-	176,734
-	-	-	-	37,543
-	-	19,093	-	19,093
-	-	-	-	412,140
<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,763)</u>	<u>(13,763)</u>
<u>147,057</u>	<u>3,906</u>	<u>19,093</u>	<u>(13,763)</u>	<u>631,747</u>
<u>\$ 147,057</u>	<u>\$ 3,906</u>	<u>\$ 19,093</u>	<u>\$ -</u>	<u>\$ 659,088</u>

**CITY OF FARMERSVILLE**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2013**

	Park Development Fund	Maintenance District	Developer Fees	Drug Enforcement Fund
Revenues:				
Property taxes	\$ -	\$ 54,120	\$ -	\$ -
Developer fees	-	-	5,415	-
Intergovernmental	-	-	-	-
Investment income	48	124	304	38
Loan repayments	-	-	-	-
Miscellaneous revenue	-	-	-	1,117
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,117</u>
Total Revenues	<u>48</u>	<u>54,244</u>	<u>5,719</u>	<u>1,155</u>
Expenditures:				
Current:				
Public safety:				
Law enforcement	-	-	-	-
Fire services	-	-	5,941	-
Buildings, grounds and parks	1,617	-	-	-
Street construction and maintenance	-	49,844	-	-
Community development	-	-	-	-
Capital outlay	-	-	-	13,416
	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,416</u>
Total Expenditures	<u>1,617</u>	<u>49,844</u>	<u>5,941</u>	<u>13,416</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,569)</u>	<u>4,400</u>	<u>(222)</u>	<u>(12,261)</u>
Net changes in fund balances	(1,569)	4,400	(222)	(12,261)
Fund Balances, July 1, 2012	<u>39,112</u>	<u>86,075</u>	<u>321,887</u>	<u>38,032</u>
Fund Balances, June 30, 2013	<u>\$ 37,543</u>	<u>\$ 90,475</u>	<u>\$ 321,665</u>	<u>\$ 25,771</u>

<u>Police Grants</u>	<u>State and County Asset Forfeiture</u>	<u>CalHOME Program Income</u>	<u>Federal Grants</u>	<u>Totals</u>
\$ -	\$ -	\$ -	\$ -	\$ 54,120
-	-	-	-	5,415
71,778	-	870	-	72,648
200	5	25	-	744
-	-	-	17,580	17,580
-	-	-	-	1,117
<u>71,978</u>	<u>5</u>	<u>895</u>	<u>17,580</u>	<u>151,624</u>
67,025	-	-	-	67,025
-	-	-	-	5,941
-	-	-	-	1,617
-	-	-	-	49,844
-	-	-	31,610	31,610
-	-	-	-	13,416
<u>67,025</u>	<u>-</u>	<u>-</u>	<u>31,610</u>	<u>169,453</u>
<u>4,953</u>	<u>5</u>	<u>895</u>	<u>(14,030)</u>	<u>(17,829)</u>
4,953	5	895	(14,030)	(17,829)
<u>142,104</u>	<u>3,901</u>	<u>18,198</u>	<u>267</u>	<u>649,576</u>
<u>\$ 147,057</u>	<u>\$ 3,906</u>	<u>\$ 19,093</u>	<u>\$ (13,763)</u>	<u>\$ 631,747</u>

**CITY OF FARMERSVILLE**  
**COMBINING BALANCE SHEET**  
**NONMAJOR CAPITAL PROJECTS FUND**  
**JUNE 30, 2013**

	<u>Storm Drain Development Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 203,954
Total Assets	<u>\$ 203,954</u>
<u>Liabilities and Fund Balances</u>	
Liabilities:	
Accounts payable	\$ 554
Total Liabilities	<u>554</u>
Fund Balances:	
Capital maintenance	<u>203,400</u>
Total Fund Balances	<u>203,400</u>
Total Liabilities and Fund Balances (Deficits)	<u><u>\$ 203,954</u></u>

**CITY OF FARMERSVILLE**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR CAPITAL PROJECTS FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Storm Drain Development Fund</u>
Revenues:	
Developer fees	\$ 1,547
Investment income	<u>264</u>
Total Revenues	<u>1,811</u>
Expenditures:	
Current:	
Street construction and maintenance	<u>1,562</u>
Total Expenditures	<u>1,562</u>
Net change in fund balance	249
Fund Balances, July 1, 2012	<u>203,151</u>
Fund Balances, June 30, 2013	<u><u>\$ 203,400</u></u>

**CITY OF FARMERSVILLE**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2013**

	Customer Utility Deposit			
	Balance June 30, 2012	Additions	Deduction	Balance June 30, 2013
<u>Assets</u>				
Cash and cash equivalents	\$ 39,984	\$ 23,083	\$ (23,204)	\$ 39,863
Total Assets	<u>\$ 39,984</u>	<u>\$ 23,083</u>	<u>\$ (23,204)</u>	<u>\$ 39,863</u>
<u>Liabilities</u>				
Accounts payable	\$ 584	\$ 526	\$ (1,110)	\$ -
Customer deposits	<u>39,400</u>	<u>23,908</u>	<u>(23,445)</u>	<u>39,863</u>
Total Liabilities	<u>\$ 39,984</u>	<u>\$ 24,434</u>	<u>\$ (24,555)</u>	<u>\$ 39,863</u>
	PD Hold Unadjudicated Evidence			
	Balance June 30, 2012	Additions	Deduction	Balance June 30, 2013
<u>Assets</u>				
Cash and cash equivalents	\$ 693	\$ 261	\$ -	\$ 954
Total Assets	<u>\$ 693</u>	<u>\$ 261</u>	<u>\$ -</u>	<u>\$ 954</u>
<u>Liabilities</u>				
Due to other agencies	\$ 693	\$ 261	\$ -	\$ 954
Total Liabilities	<u>\$ 693</u>	<u>\$ 261</u>	<u>\$ -</u>	<u>\$ 954</u>

**CITY OF FARMERSVILLE**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2013**

	Live Scan		
	Balance June 30, 2012	Additions	Deduction
<u>Assets</u>			
Cash and cash equivalents	\$ 694	\$ 2,564	\$ (3,819)
Accounts receivable	<u>703</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 1,397</u>	<u>\$ 2,564</u>	<u>\$ (3,819)</u>
<u>Liabilities</u>			
Accounts payable	\$ 961	\$ 3,213	\$ (3,819)
Due to other agencies	<u>436</u>	<u>2,752</u>	<u>(3,401)</u>
Total Liabilities	<u>\$ 1,397</u>	<u>\$ 5,965</u>	<u>\$ (7,220)</u>

	Total		
	Balance June 30, 2012	Additions	Deduction
<u>Assets</u>			
Cash and cash equivalents	\$ 41,371	\$ 25,908	\$ (27,023)
Accounts receivable	<u>703</u>	<u>-</u>	<u>-</u>
Total Assets	<u>42,074</u>	<u>25,908</u>	<u>(27,023)</u>
<u>Liabilities</u>			
Accounts payable	1,545	3,739	(4,929)
Customer deposits	39,400	23,908	(23,445)
Due to other agencies	<u>1,129</u>	<u>3,013</u>	<u>(3,401)</u>
Total Liabilities	<u>\$ 42,074</u>	<u>\$ 30,660</u>	<u>\$ (31,775)</u>



*THIS PAGE IS LEFT BLANK INTENTIONALLY.*

OVERALL COMPLIANCE, INTERNAL CONTROLS AND  
FEDERAL AWARDS SECTION

*THIS PAGE IS LEFT BLANK INTENTIONALLY.*



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Major and City Council  
City of Farmersville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Farmersville, California (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 9, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

677 Scott Avenue  
Clovis, CA 93612  
  
tel 559.299.9540  
fax 559.299.2344

### **The City's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Price Pange & Company*

Clovis, California  
April 9, 2014



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable Major and City Council  
City of Farmersville, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Farmersville, California's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City of Farmersville, California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Farmersville as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements. We issued our report thereon dated April 9, 2014, which contained unmodified opinions those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Price Pange & Company*

Clovis, California  
April 9, 2014

**CITY OF FARMERSVILLE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
Passed Through the California Department of Housing and Community Development:			
Community Development Block Grant	14.228	10-STBG-6713	\$ 257,534
Community Development Block Grant	14.228	11-PTEC-7622	44,777
			<u>302,311</u>
HOME Investment Partnerships Program	14.239	08-HOME-4986	15,500
HOME Investment Partnerships Program	14.239	10-HOME-6855	451,921
HOME Investment Partnerships Program	14.239	Program Income	31,610
			<u>499,031</u>
Total U.S. Department of Housing and Urban Development			<u>801,342</u>
<b><u>U.S. DEPARTMENT OF JUSTICE</u></b>			
Direct Award:			
Office of Community Oriented Policing Services			
ARRA - 2009 COPS Hiring Recovery Program (CHRP)	16.710	2009RKWX0170	24,302
2012 COPS Hiring Program (CHP)	16.710	2012UMWX0038	19,801
			<u>44,103</u>
Total U.S. Department of Justice			<u>44,103</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 845,445</u>



**CITY OF FARMERSVILLE**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

Funds received under the various grant programs have been recorded within special revenue, and enterprise funds of the City. The City utilizes the modified accrual method of accounting for the special revenue, and full accrual method for enterprise funds. The accompanying Schedule of Expenditures of Federal Awards (Schedule) has been prepared accordingly. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Schedule of Expenditures of Federal Awards**

The accompanying Schedule presents the activity of all federal financial assistance programs of the City of Farmersville. The Schedule includes federal awards received directly from federal agencies, as well as federal financial assistance passed through other agencies. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the operations of the City as a whole.

**CITY OF FARMERSVILLE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	<u>    X    </u> yes	<u>          </u> no
Significant deficiency(s) identified - not considered to be material weaknesses?	<u>          </u> yes	<u>    X    </u> none reported
Noncompliance material to financial statements noted?	<u>          </u> yes	<u>    X    </u> no

**FEDERAL AWARDS**

Internal control over major programs:		
Material weakness(es) identified?	<u>          </u> yes	<u>    X    </u> no
Significant deficiency(s) identified - not considered to be material weaknesses?	<u>          </u> yes	<u>    X    </u> none reported
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	<u>          </u> yes	<u>    X    </u> no

**IDENTIFICATION OF MAJOR PROGRAMS**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.239	HOME Investment Partnerships Program
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<u>          </u> yes <u>    X    </u> no

**CITY OF FARMERSVILLE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2013-001**

**Condition:** The City did not properly record cash, payables, receivables, revenues, unavailable revenues and capital assets during the year-end closing process. During our audit we identified these errors and proposed the necessary accounting entries to correct the balances of these accounts. City management agreed with our adjustments and posted the entries.

**Criteria:** A strong system of internal controls and management review requires that general ledger account balances be properly reconciled to a subsidiary ledger or other adequate supporting documentation on a periodic basis, as well as during the year-end financial close process. Management is responsible for maintaining its accounting records in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

**Cause:** Financial closing adjustments to record year-end cash, payables, receivables, revenues, unavailable revenues and capital assets were not identified and posted to the City accounting records.

**Effect:** As a result of this condition, payables, receivables, revenues, unavailable revenues and land held for resale were initially materially misstated.

**Recommendation:** We recommend that the City create a year-end financial closing checklist which includes the necessary steps, in detail, that should be undertaken at year-end to ensure proper reconciliation and reporting of all significant account balances.

**Management's Response:** The City concurs with the finding. Management will create a year-end financial closing checklist that includes the necessary steps at year-end to ensure proper reconciliation and reporting of all significant account balances. The City also recognizes the importance of consistency and stability in management. Having too much turnover and at times vacancies in the Finance Director and Finance Manager positions have contributed to the conditions that lead to these findings. The City is hopeful that the newly-hired Finance Director will bring more stability and structure to the City and help to prevent such findings, in the future.

**CITY OF FARMERSVILLE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2013-002**

**Condition:** The accounting records of the City were not adjusted to reflect the dissolution of the Farmersville Redevelopment Agency and the establishment of the Successor Agency.

**Criteria:** On December 29, 2011, the California Supreme Court upheld Assembly Bill x1 26 ("the Bill"), which provided for the dissolution of all redevelopment agencies in the State of California. Under the Bill, the City of Farmersville accepted the role of successor agency to serve as custodian for the assets of the dissolved redevelopment agency, pending distribution to the appropriate taxing entities after the payment of enforceable obligations that were in effect as of the signing of the Bill. Based upon the nature of this custodial role, upon dissolution the assets and liabilities of the dissolved redevelopment agency, the activity should have been reported in a fiduciary fund (private-purpose trust fund) of the City in accordance with generally accepted accounting principles.

**Cause:** The City did not adequately understand the required accounting and related financial reporting applicable to the dissolution.

**Effect:** The City accounting records did not accurately reflect the dissolution of the former redevelopment agency and subsequent custodial role of the successor agency.

**Recommendation:** The year-end closing process should be enhanced to ensure identification of accounting changes for inclusion in the accounting records.

**Management's Response:** The City concurs with the finding. Management is hopeful that the newly-hired Finance Director will bring to the City the much-needed stability and consistency that has been lacking over the past few years, due to turnover in those positions.

**CITY OF FARMERSVILLE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION III – FEDERAL AWARD FINDINGS**

None reported.

**CITY OF FARMERSVILLE**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

**FINANCIAL STATEMENT FINDINGS**

**Finding 2012-1**

Condition

Bank account balances were not reconciled to the general ledger.

Criteria

Internal controls should be in place which provide reasonable assurance that cash balances reported in the City's general ledger are properly and timely reconciled to the bank statements.

Cause

The finance director charged with the responsibility of preparing the necessary reconciliations was out for a substantial portion of time and her bank reconciliation duties were not reassigned to other personnel. Upon her return, she was unable to reconcile the accounts due to the large volume of transactions and her lack of experience with complex reconciliations. Subsequently, the finance director was dismissed. Current accounting staff does not have the experience or expertise to prepare the reconciliation.

Effect

The lack of a proper bank reconciliation resulted in uncertainty regarding the propriety of recorded balances. Further, the lack of bank reconciliation exposes the City to a significant risk that accounting errors or fraudulent transactions will not be identified by employees in the normal course of performing their assigned functions.

Recommendation

All of the City's bank accounts should be immediately reconciled to the general ledger.

Response

The City acknowledges that bank accounts were not reconciled with the general ledger and does agree that this was in most part due to the unanticipated and extended absence of the previous finance director due to personal injury. The City also acknowledges that conducting the bank reconciliations should be a priority in order to avoid and detect any fraud that could potentially occur. There are policies in place to this affect; however, stronger efforts will be made to ensure that they are followed. In addition, the City has hired a finance director that will start soon and the first priority will be to review and revise policies related to finance and the new director will also take steps to ensure the reconciliations are done regularly and correctly.

Status

Partially implemented. See current year finding 2013-001.

**CITY OF FARMERSVILLE**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2012-2**

Condition

Accounts payable balances recorded in the general ledger were not reconciled with the accounts payable aging reports or with other manually prepared accounts payable subsidiary schedules.

Criteria

Internal controls should be in place which provide reasonable assurance that accounts payable balances reported in the City's general ledger are properly and timely reconciled to the accounts payable aging reports and other manually prepared accounts payable subsidiary schedules.

Cause

Accounting personnel at the City lack an adequate understanding of how the integrated accounts payable module records and posts activity to the general ledger.

Effect

The lack of a proper accounts payable reconciliation resulted in uncertainty regarding the propriety of recorded balances. Further, the lack of accounts payable reconciliation exposes the City to a significant risk that accounting errors or fraudulent transactions will not be identified by employees in the course of performing their assigned functions.

Recommendation

The City should immediately reconcile the accounts payable balances reported in the general ledger to the accounts payable aging reports and to other manually prepared subsidiary accounts payable records.

Response

The City acknowledges that the accounts payable reconciliations were not being prepared regularly. It should be noted that those responsible for those reconciliations that were not being completed are no longer with the City. A new finance director has been hired and one of the first priorities will be to ensure that all current policies are reviewed and updated to ensure sound practices are followed. The new finance director will also be responsible for ensuring that the accounts payable reconciliations are done on a regular basis and that they are done correctly.

Status

Not implemented. See current year finding 2013-001.

**CITY OF FARMERSVILLE**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2012-3**

Condition

A schedule of capital asset additions, deletions and depreciation was not maintained.

Criteria

GASB 34 requires the reporting of capital asset balances and related accumulated depreciation and depreciation expense in the government wide statements.

Cause

In prior years, the required capital asset schedules were prepared by the finance director or city manager who was also a CPA. Prior to the commencement of the audit, both the finance director and the city manager left the employ of the City prior to preparing the required schedules. Current accounting staff at the City does not have the expertise or experience to prepare the required schedules.

Effect

The capital asset balances reported in the financial statements and the related footnote disclosures are not fairly presented in accordance with generally accepted accounting principles.

Recommendation

The City should pursue the hiring of a finance director who is experienced with governmental accounting principles and practices.

Response

The City acknowledges that the capital asset additions, deletions and depreciation were not maintained. The prior staff responsible for these schedules is no longer with the City. The City has recruited and hired a new finance director and one of the first priorities will be to ensure that accounting policies and procedures are updated and followed. The new finance director will also be responsible for ensuring that the schedule of capital asset additions, deletions and depreciation is maintained and completed properly and in a timely manner.

Status

Not implemented. See current year finding 2013-001.